

**COMMERCE ASSET MANAGEMENT, LLC**

**Firm Brochure**

(Part 2A of Form ADV)

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*This brochure provides information about the qualifications and business practices of Commerce Asset Management. If you have any questions about the contents of this Brochure, please contact us at 901-969-1390 and/or [kurt.voldeng@csg Holdings LLC](mailto:kurt.voldeng@csg Holdings LLC). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

*Commerce Asset Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.*

*Additional information about Commerce Asset Management also is available at the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **Item 2 - Material Changes**

- No material changes have taken place

We will further promptly provide you with a new Brochure as necessary based on material changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting our Compliance Department at 901-761-8080 or [compliance@csg Holdings LLC](mailto:compliance@csg Holdings LLC). Additional information about Commerce Asset Management is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with CAM who are registered, or are required to be registered, as investment adviser representatives of CAM.

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## **Item 4 - Advisory Business**

### **Firm Description and Principal Owners**

Commerce Asset Management, LLC (“CAM”) is a Delaware limited liability company which began business in July, 2010. CAM is wholly owned by Commerce Holdings, LLC which also owns a related investment adviser, Commerce Advisors, LLC. CAM’s business purpose is alternative investment asset management and other alternative investment advisory services more fully described below. Commerce Holdings is wholly owned by CSG Holdings, LLC which owns various financial services companies specializing in services to primarily institutional clients.

CAM specializes in alternative investment management and advisory services consisting of:

- Alternative investment management services offered through separate accounts.
- Alternative investment management services offered through pooled investment vehicles.
- Alternative investment advisory services.

### **Types of Advisory Services**

#### **Alternative Separate Account Management**

CAM provides alternative asset management services through separately managed accounts. CAM has an 85% majority owned subsidiary, Quantitative Alternative Management LLC (QAM), which is a quantitative analytics firm formed to develop a suite of liquid and transparent investment strategies employing a unique combination of fundamental knowledge and precision based quantitative analytics. QAM develops and designs alternative investment strategies which are employed by CAM to provide services to high net worth families and institutional investors. Generally, these strategies consist of investments in readily available marketable securities that attempt to replicate well known hedge fund indices. CAM is the investment manager for these alternative investment strategies developed by QAM.

#### **Pooled Investment Vehicles**

CAM provides investment management services to pooled investment vehicles, managed under different investment strategies, each of which is offered to qualified investors exclusively on a private placement basis. CAM serves as the investment manager for Heritage Hedged Equity Fund, LTD and Heritage Hedged Equity Fund, LP (“Heritage” or “Funds”). Collectively, pooled investment vehicles are referred to as “Funds.” Commerce Asset Partners, LLC, a subsidiary of CAM, serves as the General Partner of Heritage Hedged Equity Fund, L.P. The Funds are all considered “funds-of-funds” in that they typically allocate their assets to multiple portfolio managers that pursue various alternative investment strategies (“Sub-Managers”). Each of the Funds will allocate its assets to Sub-Managers by investing in pooled investment vehicles managed by Sub-Managers (“Sub-Funds”) and/or will allocate its assets to one or more Sub-Managers by opening managed accounts with such Sub-Managers (“Managed Accounts”). It is important to note that CAM does not tailor the investment decisions of the Funds to individual clients and clients generally will not be able to impose restrictions on the Fund’s investments in certain securities or types of securities.

### Alternative Investment Advisory Services

CAM also provides investment advisory services to certain clients on both a discretionary and a non-discretionary basis with respect to non-traditional investments. CAM develops multi-manager custom portfolios for clients that may be offered through a special purpose pooled investment vehicle or through specific separate accounts typically invested in limited partnership interests. Terms of such advisory services are negotiated on a client by client basis, and these services are only provided to accredited investors. Typically, these services are customized to clients' specific needs and may be part of an overall investment program or strategy employed by the client.

### Heritage Hedged Equity Fund, L.P./ Heritage Hedged Equity Fund, LTD

CAM serves as the investment manager for Heritage or the "Funds". The investment objective of the Fund is to generate long-term, risk-adjusted returns that are superior to traditional equity investments. The Fund is a "multi-strategy fund" that allocates substantially all of its assets to Sub-Managers that pursue various alternative investment strategies. The Funds ordinarily allocates its assets to Sub-Managers by investing in Sub-Funds managed by Sub-Managers. However, the Fund may from time to time allocate its assets to Sub-Managers by opening Managed Accounts with Sub-Managers. In addition, the Funds may allocate assets to Sub-Funds or Managed Accounts that are managed by CAM or its affiliates. CAM may, but is not required to, cause the Fund to make (either directly or indirectly) investments designed to hedge against risk in the Fund's positions. The Funds expect to achieve a degree of diversification by holding interests in several Sub-Funds and/or Managed Accounts. In seeking a risk/return mix more likely, in CAM's estimation, to achieve the Funds' investment objective, CAM will periodically rebalance the allocation of the Funds' investments by withdrawing assets from any Sub-Fund or Managed Account, reallocating the capital among Sub-Funds and/or Managed Accounts and committing additional capital to any Sub-Fund or Managed Account, in each case without notice to investors. The Funds may invest in a Sub-Fund or Managed Account managed by CAM with a strategy to invest in a variety of liquid investments intended to approximate the performance of a benchmark index or otherwise replicate the investment returns of hedge funds as an asset class.

CAM manages a separately managed account on behalf of the Fund of approximately \$2 million. The separately managed account is invested in a strategy developed by CAM's subsidiary, QAM. QAM's strategy, used by the Fund, is to invest in market securities (primarily ETF's) seeking hedge fund type returns which attempt to track a recognizable non investable hedge fund index.

*Please see the Fund's Confidential Private Placement Memorandum or similar offering document (each, an "Offering Memorandum") for additional details on the terms of an investment in the Fund.*

## **Item 5 - Fees and Compensation**

### **Description**

The specific manner in which fees are charged by CAM is established in a written agreement directly with CAM or between CAM and the pooled investment vehicle managed by CAM. CAM will generally bill its fees on a monthly or quarterly basis, in advance. Management or Advisement fees shall be prorated

for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated management fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

CAM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Fund or the client. Clients may incur certain charges imposed by custodians, brokers, third party investment fees such as fees charged by sub-advisory managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds ("ETFs") and other pooled investment vehicles also charge internal management fees, which are disclosed in a fund's prospectus or offering memorandum. Every mutual fund and ETF has internal management fees, legal, accounting, brokerage, custodial and operating expenses that are borne by the fund investor. The total of such charges vary and are more fully set forth via the particular investment prospectus. These expenses are netted against gross returns and the net returns are reported to shareholders. Such charges, fees and commissions are exclusive of and in addition to CAM's fees. CAM shall not receive any portion of these commissions, fees, and costs with the exception of those cases when such a fund is advised by CAM.

Item 12 further describes the factors that CAM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

Discretionary fees are expressed as a percentage of assets. Asset based fees generally range from .50% to 1.50% depending upon the particular client's portfolio size and specific service needs.

On a selective basis CAM may enter into advisory services on a non-discretionary basis and fees may include fixed dollar amounts or may be expressed as a percentage of assets. CAM's standard fixed fees generally range from a minimum of \$50,000 per annum and up. Although CAM's, stated minimum annual fee is \$50,000, exceptions may occur on a specific client basis and with approval of management. Both fixed fees and asset fees are based upon client expectations of service, portfolio asset size, and scope of service provided, complexity of service, risk factors and input costs. Fees are negotiable.

Performance-based fees are used only with clients who satisfy the requirements of Rule 205-3 of the Investment Advisers Act of 1940 see more fully detailed description below.

CAM provides investment management services to affiliated pooled investment vehicles, each of which is offered to qualified investors (see Item 10 below) exclusively on a "private placement" basis. Generally, clients are charged 1% of invested capital balance, but fees may be negotiated depending on overall scope of the client's relationship.

## **Item 6 - Performance-Based Fees**

### **Description**

In certain cases, CAM may enter into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each such client. CAM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, CAM shall include realized and unrealized capital gains and losses.

Pooled investment vehicles managed by CAM such as Heritage, generally carry an incentive fee of 5% of profits which, in addition to, the underlying fees charged by the investment manager which may include a management fee and incentive fee. Performance-based fees are generally charged by the Sub-Funds or Managed Accounts in which the Funds invest. CAM's performance fee is calculated net of these charges. Performance fees are described more fully in the underlying private placement memorandum related to the pooled investment vehicles managed by CAM.

Performance based fee arrangements may create an incentive for CAM to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. CAM has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 - Types of Clients**

### **Description**

CAM generally provides its alternative investment services to individuals, high net worth individuals, corporate pension and profit sharing plans, charitable institutions, foundations, endowments, trusts, estates, corporations or business entities, and affiliated pooled investments vehicles or private funds which CAM sponsors. Each pooled investment vehicle is available for investment by investors (individuals or entities) that meet the investment eligibility criteria.

Each Fund is offered only by its Offering Memorandum to investors who meet the relevant investor eligibility requirements. Please see the relevant Fund's Offering Memorandum for more information on the investor eligibility requirements for that Fund.

Client relationships vary in scope and length of service.

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

Alternative investment managers are evaluated upon relative performance such as peer group and market comparisons. CAM compiles specific money manager information from third party sources or via



direct interface with the money manager utilizing proprietary analysis techniques. CAM utilizes this information as a component of investing. In selecting and maintaining Sub-Funds and Managed Accounts for the Funds, CAM performs due diligence on the Sub-Managers and evaluates each based on performance record, investment strategy or trading style, organizational depth and longevity, and other factors.

CAM emphasizes diversification as well as risk analysis when evaluating alternative investment securities and money manager strategies for inclusion in an investment portfolio as part of CAM's alternative investment advisory services. CAM relies on internally generated research when making investment or investment recommendations. CAM's principal sources of information include publicly available information as well as subscription and proprietary analysis regarding money managers; public filings of issuers and money managers with governmental authorities; annual reports; industry data; interactions with money managers via the telephone, web or face-to-face meetings. In addition, trade publications, charts and other statistical material are furnished by outside vendors.

CAM may also utilize research accumulated by affiliated companies under the CSG Holdings or Commerce Holdings organizational umbrella. This research may be part of a research services agreement with the affiliate entity.

*Investing in securities directly or money manager strategies involves risk of loss that clients should be prepared to bear.*

### **Investment Strategies**

As previously mentioned, CAP is the general partner for Heritage Hedged Equity Fund, LP, a discretionary investment pooled vehicle or private fund. Heritage is a "multi-strategy fund" that allocates substantially all of its assets to Sub-Managers that pursue various alternative investment strategies.

Investment strategies developed by QAM for CAM invest in a variety of liquid investments intended to approximate the performance of a benchmark index or otherwise replicate the investment returns of hedge funds as an asset class. These strategies will seek to replicate such returns by investing in a portfolio including, without limitation, cash and other securities and instruments, futures, swaps, structured notes, exchange-traded funds ("ETFs"), stocks and forward contracts, as well as U.S. Government securities and other high quality debt securities. These strategies do not directly invest in hedge funds. These strategies may be part of the strategy used in Heritage or other pooled investment vehicles under discretionary advisement by CAM. These strategies may be part of a client's overall investment strategy if the investment is appropriate for the client and the client is an "accredited" investor.

For selectively accepted non-discretionary account portfolios invested in alternative investments, CAM focuses on strategic asset allocation and the selection of active investment managers. Portfolios are diversified to control the risk associated with traditional markets. CAM may utilize both actively managed strategies and index-based investments in the implementation of client portfolio strategies. CAM employs a variety of vehicles to gain access to the desired investment manager or passive strategy

(e.g. separate accounts, institutional no-load mutual funds, commingled trusts, limited partnerships, closed-end fund, and other pooled investment vehicles). The investment strategy for a specific client is based upon the objectives stated by the client and discussions held with CAM personnel during consultations. The client may change these objectives at any time. CAM professionals will review the client's stated investment objectives regarding alternative investments or help its clients develop an alternative investment strategic plan. Generally, alternative investments are part of a client's overall investment portfolio and CAM professionals will ensure that its services related to alternative asset management or alternative investment consulting are a reasonable component of the overall client's investment framework.

Underlying investment manager strategies may utilize long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. CAM's investment strategies possess risk characteristics that CAM must constantly keep in mind as CAM evaluates whether it is appropriate for client investment portfolios. Investors should review underlying disclosure information provided by investment managers such as the prospectus, private placement memorandum, etc.

Investors typically face the following investment risks, however, this list is not meant to be comprehensive or address all risks that may be present in an underlying investment manager's strategy:

- Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Custody Risk:** The risk of loss of securities held in custody occasioned by the insolvency, negligence or fraudulent action of the custodian or sub-custodian. Even if an appropriate legal framework is in place, which eliminates the risk of loss of value of the securities held by the custodian in the event of its failure, the ability of participants to transfer the securities might be temporarily impaired.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of CAM or the integrity of CAM management. CAM has no reportable information applicable to this Item.

## **Item 10 - Other Financial Industry Activities and Affiliations**

### **Affiliations**

CAM has arrangements that are material to its advisory business or its clients with related entities as described below.

CAM is a wholly owned subsidiary of Commerce Holdings, LLC, which owns an affiliated Registered Investment Adviser, Commerce Advisors, LLC. Commerce Holdings is a wholly owned subsidiary of CSG Holdings and is also related to Commerce Square Trading, LLC, Consulting Services Group, LLC, and InterSec Research, LLC each of which are wholly-owned by CSG Holdings, LLC (common parent).

Commerce Asset Partners, LLC ("CAP") is a subsidiary of CAM. CAP is the General Partner of Heritage Hedged Equity Fund, LP.

Commerce Square Trading, LLC is a related registered introducing broker-dealer. Certain employees of CAM (including Akos Beleznyay, CIO) are registered representatives of, provide services to and may be compensated by Commerce Square Trading.

Consulting Services Group, LLC is a related registered investment adviser that largely focuses on institutional investment consulting. Certain employees of CAM may provide consulting services to clients of Consulting Services Group. Additional information regarding Consulting Services Group may be obtained by contacting the Compliance Department at 901.761.8080 or at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Commerce Advisors is an affiliated entity which provides comprehensive wealth management services including financial planning, investment strategy asset class selection and reporting to high net individuals, family offices, trusts, estates, closely held businesses and, on a selective basis, small and

medium sized pension and profit sharing plans and charitable organizations. Clients of Commerce Advisors may also be clients to CAM, such as being investors in pooled investment vehicles managed by CAM, such as Heritage. Certain employees of CAM may provide consulting services to clients of Commerce Advisors.

CAM owns 85% of Quantitative Alternative Management, LLC. Quantitative Alternative Management, LLC is an affiliated entity that seeks to develop and design investment management strategies and services in respect of various types of alternative investment replication products. Matt Robinson, an outside consultant and trading advisor to the QAM strategy, owns 15% of Quantitative Alternative Management. Matt Robinson is an immediate family member of an owner of CSG Holdings, LLC.

InterSec Research, LLC (InterSec) provides specialized performance research focused on non-U.S. institutional performance analytics and fund flow information on a client-by-client basis. InterSec services are utilized by money managers, large pensions and investment consultants.

D. Canale & Co. is an owner of CSG Holdings, LLC (parent company of Commerce Holdings and CAM) and is the sole general partner of DCC Investment Fund, L.P. through its ownership of DCC Capital Management, LLC. The offering for DCC Investment Fund is closed to new investors. Less than 5 private clients (excluding beneficial owners of D. Canale and Company) of CAM are investors in DCC Investment Fund. D. Canale & Co. is a passive co-investor with some of the investors in the fund in other investments

#### **Potential Conflicts of Interests**

Because of CAM's affiliations noted above the potential for conflict of interests exists in providing services to its clients. A conflict of interest can result in the impairment of CAM's professional objectivity when servicing a client's account.

#### **Potential Conflict – Affiliation with Commerce Square Trading an introducing Broker-Dealer.**

Commerce Square Trading offers trade execution, commission | fee recapture and other services to CAM clients as well as money managers retained by clients that choose to utilize the services of Commerce Square Trading. Commerce Square Trading also receives compensation from certain hedge fund managers through selling agreements and 12b-1 distribution fees from mutual fund companies. Commerce Square Trading may collect other sources of revenues that could result in potential conflict for a client of CAM, such as insurance or fixed income related revenues. The list below details specific potential conflicts of interest that exist. While this list is comprehensive, it is not meant to cover every possible potential conflict of interest that may arise from CAM's affiliation with Commerce Square Trading.

- CAM ("CAM") may have an incentive to recommend or engage managers or investment funds that trade through CST.
- CAM may have an incentive to recommend or engage an investment fund with which CST has a selling agreement providing for a sharing of the CAM manager's fee with CST.
- CAM may have an incentive to recommend money managers that trade through an ECN (electronic channel network) relationship introduced to the money manager by CST.

- CAM may have an incentive to recommend an active trading strategy or a money manager with an active trading strategy in order for more commissions to be generated through CST.
- CAM may have an incentive not to recommend the termination of a money manager that trades through CST or through an ECN relationship introduced by CST.
- CAM recognizes that money managers may direct trades to CST for clients with no relationship with CAM as a means of gaining favor with CAM or one of its affiliated firms. Other examples would include directing block trades or trades by pooled investment vehicles to CST.
- CAM may have an incentive not to recommend broker-dealers that could provide best execution on client transactions due to its financial interest in its related broker-dealer, CST. The generation of commissions by CST (as a result of client referrals from CAM) provides compensation to CAM and CST's common owner, CSG Holdings, LLC.

A majority of CAM clients use third party brokerage and custody services which mitigate the potential for conflicts of interests. Commission | fee recapture agreements are not required of CAM clients and are typically not part of the relationship with CAM.

**Potential Conflict – Affiliation with InterSec Research, a research consulting firm.**

InterSec services are utilized by money managers. A potential conflict of interest exists when CAM recommends a money manager that also utilizes InterSec services as CAM's ultimate parent company, CSG Holdings, may receive profits related to such money managers. Prior to providing a recommendation of any such money manager, CAM will disclose to its client if the money manager is a client of InterSec.

**Potential Conflict – Affiliation with The AIM Charity, a not-for profit organization.**

The Aim Charity holds an annual educational conference including a golf tournament and barbecue event to which clients and various investment managers are invited to participate. Various investment managers pay sponsorship fees to participate and such managers do have access to CAM clients attending the Conference. The AIM Charity deducts the expenses of the various events from sponsorship funds collected and contributes the net proceeds to children's charities. A potential conflict of interest exists in that CAM, or its employees, may be more likely to recommend those investment managers that donate money to The AIM Charity. A list of investment manager sponsorship is available upon request and investment manager contributions are limited to reasonable amounts.

CAM's Compliance Manual and CSG Holdings Compliance Committee provide a means for review of related party transactions and conflicts of interest at an operational level through a review of material transactions including the placement of client assets. CAM monitors the dollar level of client assets managed by investment managers that receive research services from InterSec Research or transact commissions through Commerce Square Trading. Further CSG Holdings makes available to clients and interested parties a comprehensive financial disclosure document that outlines the compliance review of potential conflicts of interest at the investment manager level.

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Description**

CAM has adopted a Code of Ethics for all employees of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees at CAM must acknowledge the terms of the Code of Ethics annually, or as amended.

CAM' clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the firm's Chief Compliance Officer at 901-761-8080 and/or [compliance@csg Holdings LLC](mailto:compliance@csg Holdings LLC).

CAM anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which CAM has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of investments in which CAM, its affiliates and/or clients, directly or indirectly, have a position of interest. CAM' employees and persons associated with CAM are required to follow CAM' Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of CAM and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for CAM; clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of CAM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of CAM's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between CAM and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with CAM' obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price.

CAM will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

It is CAM's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. CAM will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 12 - Brokerage Practices**

### **Selecting Brokerage Firms**

Specific custodian/brokerage recommendations are made to clients based on the underlying services needed. Bank of New York or Convergenx (an affiliate of Bank of New York) is the custodian and prime broker for a majority of CAM's client accounts. CAM does not receive fees or commissions from client custodian relationships.

CAM's affiliated introducing broker dealer, Commerce Square Trading may serve as a broker for clients of CAM and may receive commissions or fees from recommended money managers of CAM. Commerce Square Trading may provide investment manager transition management, fixed income, and recapture services to Commerce Advisors or Consulting Services Group, affiliates of CAM's clients. Commissions received by Commerce Square Trading may be part of a Commerce Advisor's / Consulting Services Group's client commission recapture arrangement with Commerce Square Trading.

## **Item 13 - Review of Accounts**

CAM's Investment Committee reviews on a monthly basis the asset management activities of CAM. This includes a review of QAM strategies, Heritage and other pooled investment vehicles managed by CAM. Market events, discovered investment intelligence or impending changes in capital may necessitate a review on a more frequent basis. Performance for each discretionary asset management service is reviewed at least monthly. Non-discretionary advisory accounts are reviewed by the Chief Investment Officer and/or Chief Operating Officer at least on a quarterly basis.

For clients engaging CAM for alternative asset management services, CAM will provide or cause to provide client account statements that detail changes in the client's account. Heritage and other CAM managed investment pooled vehicles, through a third-party administrator, furnish each investor with a report reflecting the NAV of that investor's interest at the end of each month which is generally available within thirty (30) days following month end. Each Fund provides an audited financial statement after the end of each calendar year (each Fund's fiscal year). Because each Fund is a fund-of-funds, each Fund is unable to issue its year-end audited statements until it receives year-end statements from each Sub-Manager. As a result, each Fund is likely to issue its audited financial statements approximately 180 days after the end of each calendar year. In addition, each Fund provides each investor with the

appropriate tax forms and information summarizing the investor's allocable share of each Fund's income, gain, loss, deduction and credit for each calendar year.

For non-Fund advisory client accounts, CAM, through a qualified custodian or third party administrator, provides monthly statements containing holdings, transactions and pricing for the period. Generally, client reviews entail a comparison of performance to market and peer group benchmarks as well as established goals and adherence to risk tolerance guidelines. Other factors subject to review may include investment manager allocation, securities overlap among investment managers, or investment style adherence. The nature and frequency of regular reports to non-Fund advisory clients is subject to negotiation with such clients as is generally addressed in the contractual agreement.

## **Item 14 – Client Referrals and Other Compensation**

### **Referrals Out**

CAM does not participate in referral fees or any form of remuneration from other professionals when a prospect or client is referred to them. However, CAM's related introducing broker dealer, Commerce Square Trading, may receive fees related to established selling agreements for the placement of client assets in certain investments. These fees may be part of the client's commission | fee recapture program used to offset investment advisory fees paid by clients of Commerce Advisors or Consulting Services Group, affiliates of CAM.

### **Referrals In**

CAM has solicitation agreements in place to compensate the solicitor for referring clients, prospects, or other revenue producing relationships to the company, which also includes referrals of qualified investors whereby CAM serves as Investment Manager for pooled investment vehicles or separate accounts.

## **Item 15 - Custody**

### **Account Statements**

As the managing member or investment manager of Heritage and other pooled investment vehicles, CAM will generally be deemed to have custody of client assets under the applicable Advisers Act rules (despite the fact that CAM will never have actual physical custody of such assets). CAM will generally comply with the Advisers Act custody rules by delivering audited financial statements for Heritage or the applicable pooled investment vehicle to its investors within 180 days after the end of each Fund's fiscal year.

In addition, clients will receive at least quarterly, statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. CAM urges clients to carefully review such statements.



## **Item 16 - Investment Discretion**

### **Discretionary Authority for Trading**

CAM typically accepts discretionary authority to manage investment manager accounts and/or securities on behalf of clients. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client investment as governed by the private placement memorandum or the discretionary investment advisory agreement. Investment guidelines and restrictions as they relate to non-discretionary advisory services must be provided to CAM in writing.

Under discretionary arrangements, CAM has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. In the case of Heritage or other pooled investment vehicles managed by CAM, CAM has full discretionary authority over the selection of and allocation to the Sub-Managers in each Fund, subject only to the restrictions (if any) described in the Offering Memorandum relating to the applicable Fund.

## **Item 17 - Voting Client Securities**

### **Proxy Votes**

Heritage or other pooled investment vehicles are fund-of-funds and do not generally vote on company proxies. Strategies developed by QAM for CAM are generally invested in ETF's and the underlying client is responsible for voting the proxies. To the extent that CAM is asked to vote proxies, it will do so in the best interest of the underlying Fund or investment strategy, pursuant to CAM's Proxy Policy. As a matter of firm policy and practice, CAM lacks any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. CAM may provide advice to clients regarding the clients' voting of proxies.

## **Item 18 - Financial Information**

### **Financial Condition**

CAM lacks any financial impairment that will preclude the firm from meeting contractual commitments to clients. CAM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

CAM does not require prepayment of fees six months or more in advance.